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Labor Markets

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In a market economy, human work is offered and sought in the labor market. It is valued because of the level of demand for it and the rarity of the required qualifications. At the same time, because of the different contexts and conditions, there are many labor markets that are defined as the professional labor markets, local labor markets, dual labor markets, and black and gray labor markets.

The concept of the labor market began to be widely used in the 1980s. The economics assume that the labor market, unlike other markets, is a social institution, and the following is the mechanism of exchange and allocation. Entities of the labor market apply not only to economic criteria related to work convertibility but also are related to social justice and acceptable and unacceptable behavioral patterns. People define the supply and demand for labor in terms of both economic and social values, which results in phenomena such as low wage flexibility, the persistence of unemployment, and junk jobs or precarious jobs. At the turn of the twentieth and twenty-first centuries, these phenomena are intensifying due to the global division of labor, the development of the service economy, the dissemination of non-standard forms of employment, and the instability of employment contracts.

The labor market includes the purchase and sale of work involving employees as owners of their own free labor and employers as sovereign buyers of work. Labor market institutions determine the economic motivations of people who want to reasonably satisfy their needs in terms of competitiveness and a flow of work as a resource. The balance between labor demand and its supply is a theoretical concept, which refers to the situation where the number of jobs is equal to the number of people who want to work. The actual labor markets are always characterized by an imbalance associated with the long-term durability of staff training corresponding to the new structure of demand.

The demand for labor depends on factors such as the economic situation, the attitude of employers, and the economic culture. Labor supply depends, among others, on birthrate, the average life expectancy in a given society, the processes of education to the needs of the labor market, labor mobility, work-life/ family balance policy, expectations of the work of individual social categories (for example, the issue of women's work, the work of children and young people, older workers), social acceptance for other activities, and ways of getting income other than for work (for example, attitudes toward sick or disabled people begging tolerance, appreciation for volunteer work).

Today, achieving equilibrium in the labor market is collective bargaining (Streeck 2005). This bargaining includes the negotiation of the collective contract of employment, the creation of this contract, and organized bodies of employment, that is, employers' organizations, trade unions, and agencies of the state (as a regulator and employer). Individual countries are characterized by different attributes and traditions of social dialogue in the labor market.

There are three basic models of labor relations: the cooperative model (when there are many mechanisms to facilitate understanding and cooperation), the confrontational model (when resolving conflict involves mainly employees' strikes, blockades, protest marches, and acts of sabotage), and the mixed model (Crouch 1993). Today, with the spread of democracy as a political system in many countries, the cooperative model is implemented, which focuses on negotiating, concluding collective agreements, and workers' self-limiting rights to strike. The negotiations include, for example, the general conditions of work, labor law, minimum wages, health and safety standards of work, the scope of support for the unemployed and job seekers, and directions and mechanisms of the labor market policy.

Contemporary labor market analyses include theories derived from economics, sociology, and social policy. The rapprochement between the disciplines is possible owing to the emergence of the neo-institutional approach in economics promoted by scholars such as Ronald Coase, Friedrich Hayek, and John Commons in the second half of the twentieth century. The market is considered here as a social institution to facilitate the exchange, which always occurs in a historical and cultural context. For example, countries differ in terms of economic conditions, traditions, paths of social development, the hierarchy of norms, and values associated with work. These differences are reflected by, for example, work ethic, unemployment prevention programs, and strategies of labor unions.

The labor market operates through infrastructural institutions. These are, for example, work agencies or offices managed by government or local communities, counseling agencies, labor inspection, labor courts, associations of employers and employees, labor market research institutions, training companies, and consultancies undertaking restructuring of the labor market, and vocational education institutions (Berg and Kucera 2008).

Institutionalized labor markets operate in accordance with different strategies (Eich- horst, Kaufmann, and Konle-Seidl 2008; Boeri and Van Ours 2013). Replacement/free market strategy is consistent with the neoclassical economic theories developed at the turn of the nineteenth and twentieth centuries (by, among others, Arthur Cecil Pigou, Edmund Strother Phelps, Milton Friedman). This strategy is associated with the job search theory from the late 1960s and 1970s of Armen A. Alchian and Charles C. Holt, as well as the human capital theory of Gary Stanley Becker. This strategy is based on passive labor market policies (benefits, pension bridging) and active programs (activation of the unemployed through training, regulations). The labor market policy is not effective in the case of structural/technological unemployment and unemployment associated with large fluctuations in the economic cycle. It assumes that the associations of employers and workers spoil the market.

A different strategy is called a complementary strategy (based on social consensus) and is based on a pro-employment economic policy (full employment theory by John Maynard Keynes announced in 1936). This strategy assumes that an increase in the number of jobs is made possible by all government decisions regarding investments, taxes, foreign currency, international agreements, customs, budget deficit, the state treasury loans, and restructuring. This strategy takes into account the interventions in the domestic market through an agreement between unions and employers' associations for mutual concessions.

Diversification of supply and demand for labor and related elements implies the emergence of a relatively homogeneous part of the labor market, segments. Observing the phenomenon of labor market segmentation was made possible by the use of qualitative techniques, taking into account different groups operating in the market, which self-assemble and institutionalize the protection of their own interests ahead of the competition.

The division into professional markets was already observed in the 1960s. It was noted that the various professional groups differ in the degree of control over the labor market. Different markets were described: a market under the control of a professional group, the traditional market, formally administered market, contesting market, and free market (Miller and Form 1964). The first situation occurs when a professional group controls its decisions on wages and working conditions, and makes decisions of this kind in relation to other professions and occupational groups (for example, managers, directors, owners of large companies).

The traditional market exists when professional groups monopolize certain skills and define a set of ethical principles relating to themselves and their customers that act as regulators of behavior. In such a market are groups of independent professionals, for example, doctors, lawyers, architects, designers, artisans. Enrolment in this market is controlled by strong professional associations, which also affect the working conditions, the structure of the required fees, and the relationship with customers.

The administered market includes public sector officials whose salaries are dependent on the level of formal qualifications and period of occupancy of the position. It is sometimes necessary for an examination or qualifications to obtain the job. Wages are typically lower than in other markets, but more stable and reliable.

The contesting market is associated with professions that engage in industrial action by which wages and working conditions are defined by auction rather than by the market (for example, blue-collar occupations). The propensity to strike is mainly characterized by workers of large factories who know the value of political protest.

In the free market (unstructured), wages shape the relationship between supply and demand on the job. Low skills, poor self-organization of workers, and changing demand cause wage-setting at a low level. This applies to groups such as retail traders, immigrant workers, domestic servants, and seasonal workers.

The dual labor market theory of Peter B. Doeringer and Michael J. Piore (1971) is based on the hypothesis that labor markets are divided into segments, which are distinguished from each other by a separate system of rules, job behavior requirements, and different skills. This division is the result of employee characteristics such as gender, age, and race, which define their work environment and lifestyle. For example, human resources policies include preferences for recruiting white male workers to managerial positions by offering training, pay gains, promotion, and job security. This theory allows the analysis of issues such as barriers to satisfying the structural labor demand by women and teenagers, the availability of unstable and low productivity jobs in advanced economies, the employment of immigrants in jobs that are not attractive for local workers, barriers to promoting the unattractive jobs by market mechanisms such as raising wages, and acceptance of unattractive jobs by socially vulnerable groups (Kogan 2007).

The dual labor market theory divides the economy into primary (internal) and secondary (external) segments (Loveridge and Mok 1979; Garz 2013). Internal labor markets traditionally dominated by white males ensure institutions and rules, which provide promotion systems for employees and extensive career ladders (the distinction between the upper-tier, white-collar, and lower-tier blue-collar ladders). Wages are based here on job evaluations and firm-specific skills that support long-term relationships between employers and employees with stable and permanent employment. The primary segment is therefore characterized by high wages, attractive working conditions, employees that strongly identify with the companies, jobs in large companies with a strong market position and importance for the economy, voluntary payments, employment stability, opportunities for advancement, and the strong position of mainly male trade unions in their efforts to respect the rights and privileges of employees. The unemployment of workers from the primary segment is an involuntary condition because such employees do not tend to seek jobs. They rather wait to regain their positions or accept less attractive work temporarily.

External labor markets are closer to the assumptions of neoclassical theory, dominated by women and minorities, and contain low-paying and low-status jobs. The main characteristics are less attractive jobs (care and domestic work, the helping professions); competitive, lower wages that often are poverty level or below (the gender gap in earnings); fulfillment of vacancies by the market not internal promotions; requirement of general skills that can be easily replaced by hiring and firing; poor working conditions; fewer opportunities to advance; and high absenteeism. Workers care less for the company goals and values and may quit at any time. Such markets exist mainly in unconcentrated industries and serve as buffer stocks in concentrated industries during expansionary periods of business cycles.

Similar assumptions support the insider outsider theory and the core-periphery model from the 1980s developed by scholars such as Assar Lindbeck, Dennis J. Snower, Olivier J. Blanchard, and Lawrence H. Summers. The core of the labor market (insiders) occurs in the industry, which achieves high performance, high profits, and often monopolizing production, while the majority of its employees belong to unions. At the same time, it offers relatively high wages, good working conditions, employment stability, and the protection of workers' rights. The peripheral sector (outsiders) is the area of operation of small firms with lower productivity, lower profits, less organizational and technical advancement, and offers less paid and unstable jobs. Workers from the peripheral sector face difficulties in the transition to the core of the labor market because employers prefer to hire workers with valuable related experience from successful companies.

The geographical approach focuses on local labor markets. They are characterized by a certain degree of isolation from the global economic system due to their specific types of resources, the degree and manner of their mobilization, and the local needs of the market participants. Local labor markets can be divided into deep or shallow. A deep labor market is characterized by industrialized and urbanized areas, with a large number of business units and diversified trade structure, extensive institutional infrastructure, and social networks. Shallow labor markets are found in less industrialized and urbanized areas, dominated by one or a few industries.

Another manifestation of labor market segmentation is the typology of formal and informal labor markets (the gray market, the shadow economy), which can be unregistered, uninsured, and not recognized by the tax system. It operates in the areas of needs unmet by the official economy and, at the same time, for which there is a kind of social acceptance (for example, home renovations, transportation services, domestic work, care services).

Another typology was proposed by Gunther Schmid (2008) by distinguishing transitional labor markets. Such markets are institutional arrangements and instruments which occur in five transitions: (1) from school to work or education and employment; (2) from job to job or between various employment relationships; (3) between employment and unemployment; (4) between (unpaid) private household activities and gainful work; and (5) from employment to retirement. This theory emphasizes the ability to shape institutions and active labor market policies in relation to the problems associated with changes in critical events over the life course.

SEE ALSO: Deskilling; Discrimination; Dual Labor Market Theory/Dual Economy; Employment and Unemployment; Human Capital; Markets; Pay Gap

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